ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

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HIGHLIGHTS OF BUSINESS IN NOVEMBER

Increasing industrial and trade activity was the keynote of business in November. All indications were that the personal income of the American people during that month reached a new high exceeding the October record of $310 billion at an annual rate.

Activity in trade, in manufacturing, in construction, and in utilities were all at record or near record levels. Department store sales in November were 6 percent higher than a year ago, and electric power output, one of the key indicators of business activity, was ahead of last year by weekly margins of 18 percent or more.

The principal exception to the upward movement was agriculture, as depressed prices kept farm incomes well below last year. A sharp drop in hog and cattle prices in November reduced the farm parity ratio to 81, the lowest figure in fifteen years.

Employment Up

More people were gainfully employed this November than in any past November in our history. Dropping less than seasonally from the October high, the 64.8 million people holding jobs in November represented an increase of 2.6 million over the number at work in November, 1954. Unemployment, at 2.4 million, was also higher in November, but the increase was seasonal and still left a jobless total nearly half a million below a year ago.

Large seasonal cutbacks in agriculture, construction, and food processing occurred in November, with about one million workers laid off from farm work. In industry and trade, however, employment gains were reported. Factory employment rose 100,000 to a new November peak of 17.1 million, a gain of nearly one million over last November. At the same time, production workers in factories earned more than ever before — an average of $79.52 per week.

Inventories Accumulate

Manufacturers, wholesalers, and retailers increased their inventory holdings by $700 million during October, after seasonal adjustment. This brought the book value of their stocks at the end of the month to $81.3 billion, nearly $4 billion more than the value of stocks a year ago.

The bulk of the increase was at the manufacturing level, where stocks jumped $500 million during October, mostly in durable goods industries. Retailers' inventories rose only slightly more than seasonally as did those of wholesalers.

So far businessmen have managed to increase sales more than inventories. Thus, while inventory holdings at the beginning of November exceeded the year-earlier figure by 5 percent, total business sales in October were 14 percent above October, 1954.

1956 Farm Prospects

Farm incomes in 1956 will probably be lower than the estimated $10.6 billion earned in 1955, according to recent estimates of the United States Department of Agriculture. Cash receipts from the sale of livestock and products may be as high as they were this year but a further reduction in income from crops seems likely. Although production expenses may also be somewhat lower in 1956, a further reduction in farm income appears in prospect.

Despite the decline in farm income and in farm prices during the past year, the total value of farm assets rose in 1955 paradoxically and may not change much in 1956. The explanation lies in the valuation of farm real estate, which has continued to increase for several reasons. Principal among these have been the desire of farmers to enlarge their farms, liberalized lending policies, good crop yields this year, the optimistic general business outlook, and the expectation of increased demand for farmland over the long run.

Higher Capital Outlays

Further increases in capital expenditures of American business are in prospect, if the most recent plant and equipment survey of the United States Department of Commerce and the Securities and Exchange Commission proves correct. Company investment plans reported in November indicate that expenditures for new plant and equipment in the first quarter of next year may reach $7.3 billion, about 12 percent more than was spent in the first quarter of this year. Although this would be seasonally below the $8.0 billion of capital expenditures being made in the last quarter of this year, it would represent after seasonal adjustments a record $31.6 billion annual rate of spending.

The biggest increase in planned outlays relative to the first quarter of this year was reported by railroads, up 55 percent. Capital outlays of durable goods manufacturers as a whole are expected to rise by 25 percent, those of nondurable goods manufacturers by 12 percent. Utilities are planning to increase expenditures 5 percent; mining and transportation other than railroads 3 percent.

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Approaching the Turn

The optimists have put up "one-way" signs along the economic road. These signs indicate that the way is ever upward.

The effects of extreme optimism pervade all phases of economic activity. They are perhaps most apparent in the stock market, in the willingness of consumers and businessmen to borrow for greater spending, and in the "inflation" of industrial costs. But they are not confined to these phenomena, nor to our economy alone. The entire Western World is riding high.

The exhilaration of a joy-ride typically leads to some disregard of possible danger. The nature of the economic danger we face has been pointed out in previous issues of this *Review*. We are riding the combined crest of long and short cycles — a long postwar cycle and a short cycle that has been carried to an extreme. It is not a situation that can be long maintained.

Character of the Boom

The fact that the boom has lasted longer and carried farther than anyone anticipated a year ago affords no assurance for thinking that it can continue. Such a movement does not eliminate, but on the contrary, intensifies the need for readjustment. The boom has already overcarried the limits of potential stability, and the farther it goes, the more severe will be the reaction.

The advance from the 1954 lows was powered first by a strong recovery in residential construction; then by a turn toward renewed accumulation of business inventories; and in the early months of 1955 by a strong upsurge in consumer expenditures, particularly for durable goods purchased on credit. More recently, as business became convinced that demand was strong, expenditures for plant and equipment have taken up the burden of sustaining the advance.

All these factors have drawn heavily on credit, with the result that tight money markets have forced interest rates up. The concentration of demands on durable goods have also created shortages of primary materials. The threat of shortages makes for duplicate ordering and gives the impression that such industries as steel will never catch up with demand. Prices of raw materials and wage rates have advanced, creating an aura of inflationary pressure. This, however, is but a symptom typically experienced in the late stages of any inventory boomlet. It holds no implication that the pace of activity will hold high for more than a brief interval. Such a conclusion could only rest on an analysis of causes, not of symptoms.

The Best Hope for 1956

The forces that have pushed the economy up to the current heights are now largely spent. They cannot be expected to produce further gains; and barring new international incidents, there is nothing in sight to keep the boom going. The best that can be hoped for in 1956, therefore, is stability at current high levels.

Homebuilding is already headed downward, and it is generally agreed that the decline will continue into 1956. New housing starts began to slide early this year, before the tightening of mortgage credit. It is doubtful if current efforts to ease credit can bring the decline to a halt in the near future.

Consumer purchases have been running in excess of what might be expected on the basis of past relationships to income, by roughly the full extent of the increase in consumer credit, or an annual rate of $6 billion. Some aspects of this problem are dealt with in the special article in this issue. There is a high probability that saving will increase next year as the expansion in credit comes to a halt. The obverse of this shift is a relative reduction in expenditures, particularly for durable goods. Hence, total consumer expenditures are not likely to advance appreciably even though income increases somewhat further.

Inventories are in process of reaching the highs of a cyclical swing which began from the 1954 lows. From an annual rate of liquidation of $5 billion to an equivalent rate of accumulation involves a contribution of $10 billion to the upswing. There was a temporary letdown in the third quarter, as the surge in auto buying took stocks out of dealers' hands, and accumulation then dropped back to an annual rate of $2½ billion. The best outcome would be a moderate rate of accumulation persisting through 1956, but such a development is unlikely. The auto industry is now producing at a peak rate and will rebuild stocks in the next few months. The accumulation of inventories in other lines of business is continuing.

A temporary dip in accumulation, resulting from a surge in consumer buying, like that of the third quarter, is not a healthy development under these conditions. It intensifies the drive to increase holdings. Such intensification of an inventory upswing typically results in pressure on prices, which further aggravates the upward phase of the cycle. However, such movements are also typically short-lived. The usual development in a situation like the present, where business is highly optimistic, would be for output to begin piling up as inventories in the next few months. That is what happened in the spring of 1951. If stocks do pile up, they will, as before, force an early reversal. The higher the peak rate of accumulation reached, the more the reversal will contribute to the forces of recession.

Business investment in plant and equipment is still moving up. In large part, this is the lagged response of capacity building to the general increase in activity. For some months, the advance will continue, but it is futile to expect that investment will continue going up on its own, after everything else has leveled. Estimates derived from surveys of planned capital outlays indicate an increase of $4 billion from 1955 to 1956. But approximately two-thirds of this has already been realized by the fourth quarter. The extension of the movement could hardly be

(Continued on page 6)

JEWELRY MANUFACTURE AND TRADE

The making of jewelry was one of the first trades to be established in the American colonies, with elaborate snuffboxes, inlaid with gold or silver, one of the most important products. Even though the tools of the old-time craftsmen were very crude by today's standards, their workmanship and skill remain as prime examples of the trade. However, it was difficult to distinguish between the various occupations, as a jeweler was then a combination goldsmith, silversmith, watchmaker, and salesman — quite different from the specialist we know today.

Development of the Industry

The first American "manufactory" of jewelry, as distinguished from the early craft methods of production, was established in 1790 at Newark, New Jersey, which soon became a center for the trade. By 1805 there were also four establishments at Providence, Rhode Island, and one at Attleboro, Massachusetts. At first, the majority of the products consisted of spoons, forks, rings, and articles of similar nature. However, as time progressed, some of the manufacturers turned their attention to other items, particularly cheap jewelry made of alloys containing only small amounts of gold or silver.

The discovery of gold in California in 1848 greatly encouraged the development of the fine jewelry industry. Twelve years later, another development in the form of electroplating opened the way to the modern mass market by reducing the cost of items similar in appearance to those actually made of gold or silver. This process made possible an attractive line of low-priced tableware and various other commodities. Plated ware entered the market as a competitor of solid silver with a strong price advantage, but in recent years the low cost of silver and numerous technical improvements in the manufacture of quality goods have increased the demand for solid silver products.

Types of Jewelry

Modern jewelry may be classified into two major categories — fine jewelry and costume jewelry. The first includes high-quality gold and silver work, with or without settings of precious stones, and is largely the product of hand craftsmanship. The second, costume jewelry, is stamped, cast, or turned out by other mass-production methods, and is made from many materials, including plastics. It is often referred to as "junk jewelry" by the trade and constitutes the bulk of commercial jewelry currently produced.

Of the many articles of jewelry in use today, the diamond is perhaps the most symbolic of the trade. Many attempts have been made to manufacture diamonds by artificial means but no process has yet met with commercial success. Colorless zircon rivals the diamond in brilliance but its use as a gem is limited by its brittleness and pitty surface. Precious and semiprecious stones are still used exclusively as settings in fine jewelry, but imitation stones tend to dominate the costume jewelry field. Perhaps the most widely used imitations are rhinestones. These stones are made of molded glass and are given a foil backing which tends to lend a sparkle that glass alone does not have.

The use of gold-plated and gold-filled articles has become increasingly popular in recent years and has caused a noticeable decline in the sales of solid gold items. Likewise, the development of inexpensive alloys has resulted in a decline in the use of the more costly platinum and palladium, with the result that these basic precious metals have had to take a back seat. This is especially true in the costume jewelry field.

In addition to precious metals, precious and semiprecious jewels, and costume jewelry, the jewelry trade also handles an assortment of allied products. Such articles as clocks and watches, pens and pencils, key rings and chains, and jewel and cigarette boxes can in part be included in the category of jewelry.

The Jewelry Trade

The manufacture of jewelry is largely concentrated in Rhode Island, Massachusetts, New Jersey, and New York City, where 1,700 of the nation's 2,500 fine and costume jewelry manufacturers are located. California, Pennsylvania, and Illinois are next in line in order of their importance. Although Illinois is not a major producer of fine jewelry, it does have over 100 firms engaged in the manufacture of costume jewelry and currently employs 9,000 people in the jewelry manufacturing industry.

In the wholesale trade, Chicago with over 300 jobbers, is one of the major markets, second only to New York City. Another major wholesale market is located at St. Louis, Missouri.

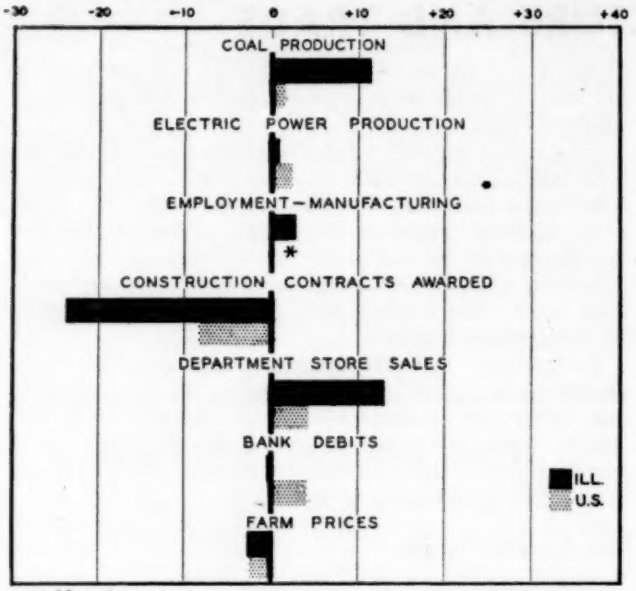
The number of retail jewelers in the nation has increased considerably in the past few years and currently numbers 34,000 as compared with 14,560 in 1939. There are three major "types" of retailers in the trade: cash jewelers, credit or installment jewelers, and repairers (usually very small stores relying principally on repair work). In addition, there are many miscellaneous retailers, such as drug, department, and discount stores, who handle costume jewelry, watches, and related products. Illinois is currently rated as the third largest retail market among the states, only New York and California having a greater number of retailers. Of the 2,000 retail jewelers located in Illinois, 1,600 are cash, 230 credit, and 170 classified as repairers. In 1954 the total volume of retail sales amounted to more than $141 million, accounting for 8 percent of the national market.

The Illinois jewelry trade, although not a seasonal industry, relies heavily upon the Christmas season, during which approximately 30 percent of all sales are made. May and June, traditionally associated with graduations and weddings, are also periods of activity. With the current high in personal income providing an impetus for consumer durable purchases, this holiday season should keep the jewelry trade in step with other lines of business reaching new highs.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes September, 1955, to October, 1955



* No change.

ILLINOIS BUSINESS INDEXES

Item	October 1955 (1947-49 =100)	Percentage Change from Sept. 1955	Percentage Change from Oct. 1954
Electric power[1]	205.2	+ 0.7	+ 9.7
Coal production[2]	82.6	+11.3	+ 6.3
Employment—manufacturing[3]	108.7	+ 2.6	+ 7.4
Weekly earnings—manufacturing[3]	147.4[a]	+ 2.6	+ 8.9
Dept. store sales in Chicago[4]	118.0[b]	+ 5.4	+12.4
Consumer prices in Chicago[5]	119.0	+ 0.1	+ 1.6
Construction contracts awarded[6]	242.2	−23.9	− 6.1
Bank debits[7]	157.6	− 0.4	+12.2
Farm prices[8]	75.0[c]	− 2.6	−10.7
Life insurance sales (ordinary)[9]	198.3	+10.8	+25.0
Petroleum production[10]	132.0	+ 0.4	+19.2

[1] Fed. Power Comm.; [2] Ill. Dept. of Mines; [3] Ill. Dept. of Labor; [4] Fed. Res. Bank, 7th Dist.; [5] U. S. Bur. of Labor Statistics; [6] F. W. Dodge Corp.; [7] Fed. Res. Bd.; [8] Ill. Crop Rpts.; [9] Life Ins. Agcy. Manag. Assn.; [10] Ill. Geol. Survey.

[a] September data; comparisons relate to August, 1955, and September, 1954. [b] Seasonally adjusted. [c] Revised series.

UNITED STATES MONTHLY INDEXES

Item	October 1955	Percentage Change from Sept. 1955	Percentage Change from Oct. 1954
	Annual rate in billion $		
Personal income[1]	309.6[a]	+ 0.6	+ 7.4
Manufacturing[1]			
Sales	320.4[a]	− 1.5	+18.7
Inventories	45.2[a, b]	+ 1.1	+ 4.6
New construction activity[1]			
Private residential	17.5	− 4.1	+10.1
Private nonresidential	15.2	− 1.5	+15.5
Total public	14.1	− 5.1	+ 8.9
Foreign trade[1]			
Merchandise exports	15.0[c]	+ 1.4	+12.0
Merchandise imports	11.3[c]	− 1.4	+21.1
Excess of exports	3.6[c]	+11.3	− 9.2
Consumer credit outstanding[2]			
Total credit	34.6[b]	+ 1.0	+19.6
Installment credit	27.0[b]	+ 1.0	+22.8
Business loans[2]	25.1[b]	+ 1.8	+19.4
Cash farm income[3]	n.a.	....	....
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	142[a]	0.0	+12.7
Durable manufactures	161[a]	+ 0.6	+15.8
Nondurable manufactures	128[a]	+ 0.8	+ 9.4
Minerals	122[a]	0.0	+11.9
Manufacturing employment[4]			
Production workers	107[a]	+ 0.4	+ 6.2
Factory worker earnings[4]			
Average hours worked	103	+ 0.7	+ 3.3
Average hourly earnings	144	+ 0.5	+ 5.5
Average weekly earnings	148	+ 1.3	+ 9.0
Construction contracts awarded[5]	244	− 8.5	− 5.2
Department store sales[2]	122[a]	+ 0.8	+ 8.9
Consumers' price index[4]	115	0.0	+ 0.3
Wholesale prices[4]			
All commodities	112	− 0.2	+ 1.6
Farm products	87	− 2.9	− 6.9
Foods	100	− 1.3	− 3.4
Other	119	+ 0.4	+ 3.9
Farm prices[3]			
Received by farmers	85	− 2.3	− 4.5
Paid by farmers	112	0.0	0.0
Parity ratio	82[d]	− 2.4	− 5.8

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.

[a] Seasonally adjusted. [b] As of end of month. [c] Data are for September, 1955; comparisons relate to August, 1955, and September, 1954. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item	1955 Nov. 26	1955 Nov. 19	1955 Nov. 12	1955 Nov. 5	1955 Oct. 29	1954 Nov. 27
Production:						
Bituminous coal (daily avg.) thous. of short tons	1,806	1,743	1,670	1,697	1,665	1,486
Electric power by utilities mil. of kw-hr.	10,727	11,149	10,878	10,853	10,659	9,087
Motor vehicles (Wards) number in thous.	174	207	209	194	183	130
Petroleum (daily avg.) thous. bbl.	6,859	6,851	6,808	6,777	6,750	6,270
Steel 1947-49=100	140	139	140	139	140	111
Freight carloadings thous. of cars	677	772	797	809	835	584
Department store sales 1947-49=100	146	142	141	128	126	133
Commodity prices, wholesale:						
All commodities 1947-49=100	111.1	111.1	111.2	111.3	111.1	110.0[a]
Other than farm products and foods 1947-49=100	119.2	119.2	119.1	119.1	118.7	114.8[a]
22 commodities 1947-49=100	89.0	88.6	88.4	88.5	88.3	90.4
Finance:						
Business loans mil. of dol.	25,833	25,783	25,485	25,303	25,124	22,137
Failures, industrial and commercial number	205	214	207	237	230	226

Source: *Survey of Current Business, Weekly Supplements.*

[a] Monthly index for November, 1954.

RECENT ECONOMIC CHANGES

Employment Drops Seasonally

Employment declined seasonally in November but was still at a record high for the month. The decline reflected the slower pace of activity on the nation's farms as nonfarm employment rose, but not enough to offset the decline in farm work. Unemployment increased, also seasonally, by 267,000 but was 500,000 below a year ago. Census data in thousands of workers are as follows:

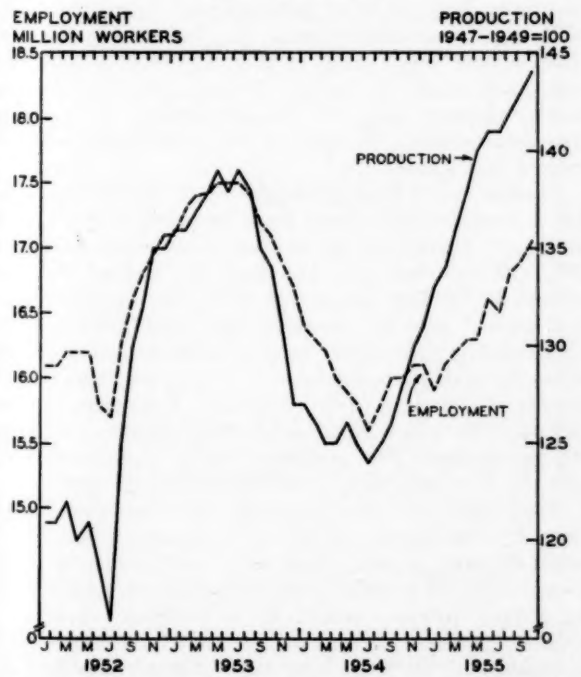
	Nov. 1955	*Oct. 1955*	*Nov. 1954*
Civilian labor force	67,205	67,292	64,624
Employment	64,807	65,161	61,731
Agricultural	6,900	7,905	6,154
Nonagricultural	57,907	57,256	55,577
Unemployment	2,398	2,131	2,893

Manufacturing Employment and Production

Although total civilian employment has been above year-earlier levels for several months, manufacturing employment is still below the 1953 highs despite a substantial rise from 1954. Manufacturing production in October, on the other hand, was five points higher than the 1953 peak.

As shown by the chart, manufacturing production has advanced considerably more than employment over the past three to four years. The chart also illustrates the point that production is more erratic than employment. This is partly because fluctuations in employment are cushioned by adjustments in the length of the workweek. For example, from July, 1954, to October, 1955, production rose 16 percent whereas employment rose only 9 percent. Over the same period the length of the average factory workweek moved from 39.4 hours to about 41 hours.

MANUFACTURING EMPLOYMENT AND PRODUCTION



Sources: Bureau of Labor Statistics and Federal Reserve Board.

Not all of the disparity between employment and production gains can be attributed to hours worked, however. Short-term increases in productivity tend to be extreme. Some help is always needed for maintenance and other overhead regardless of the level of production. As production increases, a relatively smaller increase in manhours is required. In addition the long-term upward movement in productivity with improved processes and equipment contributes to the greater growth in output.

Gross Product Advance

Gross national product continued to advance during the third quarter. Total output was up almost $7 billion from the second quarter to $391.5 billion (seasonally adjusted annual rate). The gain was more moderate than the increase of $9.5 billion between the first and second quarters because of a slight decline in residential construction and a reduction in the rate of inventory accumulation from $4.3 billion in the second quarter to $2.4 billion in the third. The decline in inventory investment largely reflected liquidation of auto inventories as sales ran above seasonal expectations in the third quarter. Investment in producers' durable equipment and nonresidential construction together increased by $2.3 billion to offset the reduced rates in other private investment.

The consumer sector was most buoyant in the third-quarter rise in gross product. Expenditures were up by $5.5 billion to $256.0 billion, with $2.1 billion of the advance concentrated in expenditures for durables (to a large extent autos), $1.7 billion in nondurables, and $1.6 billion in services.

Flow-of-Funds Accounts

The Federal Reserve Board has a new set of accounts for keeping track of our economy. Called the flow-of-funds system, it is designed to trace the sources and uses of funds involved in various kinds of transactions. For purposes of the accounts the economy is divided into 10 major sectors, such as consumers, corporate business, unincorporated business, governments, the banking system, and the rest of the world. For each of the 10 sectors, a breakdown of the sources from which funds were obtained and the type of transaction involved is given.

Every transaction is entered at least four times in the accounts. For example, a transaction involving the cash sale of an automobile by a dealer to a consumer will be entered as a purchase by the consumer, a sale by the dealer, a reduction in cash by the buyer, and an increase in cash by the seller.

A detailed description along with summary accounts for 1939-54 appears in the October, 1955, issue of the *Federal Reserve Bulletin*. In 1954 consumers used and obtained funds totaling $324 billion. The bulk of this total was used in such transactions as purchases of goods and services, insurance premiums, taxes, capital acquisitions, and purchases of securities. The largest source of consumer funds, $195 billion, derived from payrolls, of which $119 billion originated in the corporate sector, $33 billion in the noncorporate and farm sector, $32 billion in government, and the remainder in the financial sector. Included in other sources were borrowed funds and payments to consumers of insurance benefits and various grants.

Approaching the Turn

(Continued from page 2)

sufficient to offset adverse movements in the factors already considered.

Government expenditures will probably make a small positive contribution. State and local expenditures in particular are on a continuing upward trend. But further gains in this area will be minor in 1956, even if some new programs are undertaken. Developments in the private economy will dominate.

Stability Inconsistent

Although this analysis reveals hardly any prospect of further advance, it does leave open the possibility of high-level prosperity continuing through 1956. The trouble with such a projection is that, on further analysis, it turns out to be inconsistent. It is inconsistent because too many important elements are dependent upon the rise in activity and income.

The present rate of business investment represents an expansion of capacity sufficient to provide for a substantial rate of growth in the economy. If activity no more than holds stable, investment will have to be cut back — eventually, all the way back to the replacement level.

The rate of inventory accumulation is also much more than sufficient to meet the needs of a stable situation. Inventories are not low, despite widely accepted arguments to the contrary. Three common fallacies appear in such arguments: First, total sales are used as the base for judging the size of inventories, so that the sales base improperly includes goods flowing into inventory holdings as well as into consumption. Second, the ratio to sales by itself makes no allowance for the long-term downward trend resulting from improved efficiency in utilization of inventories. And third, comparison of the inventory-sales ratio with recent experience does not afford a safe criterion for the current position; although the ratio is down since 1953, for example, the 1953 inventories were unduly high as an aftermath of the Korean War scare and therefore overstate the desirable level of inventory holdings.

It may be true that inventories are not yet excessive. But they are almost sure to become excessive before the current accumulation is halted. Then, there will have to be a swing all the way over to liquidation to eliminate the excess. The deflationary effects of the reversal would, of course, be felt long before actual liquidation set in.

Consumer spending also has been dependent in part upon the rise in income. This may be seen from either the durable goods or the consumer credit points of view. Sales of such durables as autos have been supported by the strong advance in incomes; more people felt they could afford to buy because their incomes were higher. Also, more people became good credit risks because their incomes were higher. The rise in income thus combined with other temporary factors to produce an extraordinary surge in spending, with some borrowing from future levels of sales.

The resultant of a stable level of income in all these cases is a decline. But if all these important segments drop back, income will fall. The decline in income will then react adversely on all segments of the private economy. The reversal in such key lines as auto sales and business inventories will therefore be sharp, not just moderate. This is the way the leveling at the peak of a boom is usually transformed into recession.

Extent of the Decline

The two favorable possibilities are thus eliminated: A continued advance cannot be realized; a stable level cannot be maintained. What remains to be considered is the extent of the prospective decline.

It is important to note in this context that the readjustment in 1956 will be based primarily on volatile factors, to wit, on reversals in business inventories and consumer credit. Declines in these volatile factors take place quickly. They will have more or less run their course within the year, and then the economy will tend to stabilize and recover somewhat from the lows.

Construction and business investment in general are vulnerable, and will follow with some lag; but these relatively stable elements will still be at a fairly high level by the end of the year. How much of a shock they receive in the recession will be important in determining activity in 1957 and later. Immediately, however, their role will be on the side of moderation. They may be expected to contribute somewhat more to the decline than government expenditure programs are likely to contribute toward halting it. Nevertheless, the net effect of all factors other than inventories and consumption appears likely to be very limited.

The decline will also be cushioned by the "automatic stabilizers" and other factors supporting consumer income, in like manner to the way it was supported in 1954. Corporate profits have been made increasingly volatile by the depreciation and amortization provisions of the present tax law. They may fall back all the way to the 1954 low next year. In addition, further tax cuts are in prospect. The tax cutters will definitely have the upper hand in this election year, because high tax receipts based on 1955 record income offer prospects of a budget surplus. These changes will sustain disposable personal income by preventing declines in gross expenditures from being carried over fully into the income accounts.

On the other hand, any decline in disposable personal income will probably be reflected fully in declining expenditures. Savings have been severely depressed by the 1955 surge in spending. Just as they fell a little this year, while income was rising, so they may rise a little next year, while income is falling. The net effect of these opposed influences may be an adjustment in consumer expenditures more or less in line with gross national product as a whole.

Combining all these elements into a forecast indicates that a recession will begin from the high of the present movement, probably to be reached in the early months of 1956, and continue to a low near the end of the year, perhaps in the first quarter of 1957. The decline from a peak annual rate of approximately $400 billion to the corresponding low a year later is estimated at about $25 billion in real gross product, or somewhat more than 5 percent. The pattern of recession may somewhat resemble that of 1938, which also was formed primarily by autos and inventories. The probable timing is such that not even the first half of 1956 can be considered secure.

Forgotten at the moment is the fact that the sharpest turns are the hardest to get around. Disillusion, if not actual disaster, is likely to result from coming upon one unexpectedly. A possible consequence — one boding ill for the longer future — would be a complete reversal in sentiment, from extreme optimism to extreme pessimism. It may be that the "one-way" signs will not only be taken down but erected on the other side of the street.

VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Small Business Research

The Bureau of Business Research of the University of Pittsburgh has recently compiled an extensive bibliography on the problems of small manufacturing firms. It covers the topics of establishment, management and operation, economic aspects, and governmental influences, listing many books and articles of interest on each subject. More than 200 pages long, the *Small Business Bibliography* is available from that Bureau for $1.00.

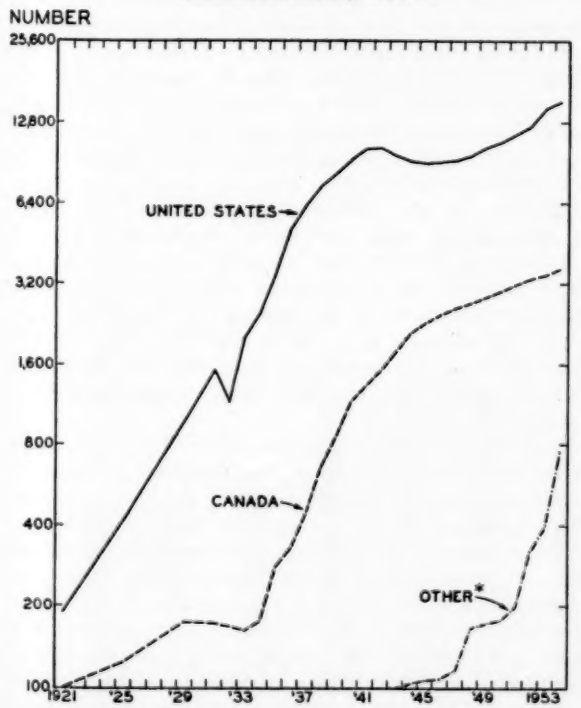
Credit Union Growth

First organized in Europe about a century ago, credit unions have existed in North America only since 1900 and in the United States since 1909. Their growth has been prodigious, however, and in 1954 there were more than 15,000 in the United States and almost 4,000 in Canada, as may be seen in the accompanying chart.

The average growth rate has been somewhat faster in the United States than in Canada, although Canada did not show the dip in the war years. Although figures are incomplete, the chart shows "other" nations in the western Hemisphere growing fastest at the present time; their growth is even more rapid than that in North America in the years of early development.

A credit union is, essentially, a group of persons who pool their savings and make loans to each other at low interest. Union membership is generally limited to a particular group, such as employees of a given firm, members of a given church, or persons closely associated in a community. Employee groups account for about 70 percent of the number of credit unions, with labor unions adding another 10 percent.

CREDIT UNIONS IN THE WESTERN HEMISPHERE, 1921-54



* Incomplete data.
Source: Credit Union National Association, *Credit Union Yearbook 1955.*

The average credit union in the United States has about 475 members. Its loans outstanding at the end of 1954 were about $100,000, and total assets were half again as much. Membership in Canada averaged slightly less, but assets were about the same.

Illinois has the largest number of credit unions among the states, 1,325. New York, despite its substantially larger population, has only two-thirds as many. Although it has fewer credit unions than Illinois, California has more members and a significantly higher volume of loans and savings.

Waste-Saving Heater

A Scotch Heater is now available for Scotchmen and others who may want to make use of the heat that goes up the chimney. The heater works by blowing air through a coil of tubes which are placed in the chimney or smoke pipes to be heated by the otherwise wasted gases escaping from the heating plant. According to the makers, this air will be warm enough to raise room temperatures 10 to 15 degrees. The air may be blown directly into a garage or basement to warm those areas or an adapter may be attached to the tubes to send the heat into air ducts to circulate in the house itself.

Containing a small motor, a fan, and the core of tubes, the unit weighs 40 pounds. It is manufactured by the Micro Scotch Heater Corporation, a subsidiary of Micro-Moisture Controls, Inc., 22 Jerico Turnpike, Mineola, New York. The retail price is about $150.

Economic Indicators

Recently published is a revised historical supplement to the monthly publication *Economic Indicators,* put out by the staff of the Joint Committee on the Economic Report in cooperation with the Council of Economic Advisers. The reports are widely used in academic and business circles, and are available from the United States Government Printing Office in Washington at a price of $2.00 per year.

A great many series are presented, some going back as far as 1910. The topics covered include national output, income, and spending; employment, unemployment, and wages; production and business activity; prices; currency, credit, and security markets; and Federal finance.

The supplement is valuable not only for the historical data which it presents, but also for the wealth of descriptive material about the data. This is divided into four parts — a description of the series, a discussion of statistical procedures used in getting and combining the data, the relationships among the series and the differences between them, and a discussion of the uses and limitations of the series.

Modern Cataloging

A push-button catalog is now available from Marketing Devices, Inc., 1170 Broadway, New York. The device is manufactured by the Industrial List Finder Division of the Bates Manufacturing Company, Orange, New Jersey. It is an adaptation of the Bates telephone list finder, enabling the salesman or the customer to easily find the product in which he is interested without thumbing through several pages.

IS CONSUMER CREDIT TOO HIGH?

MARVIN FRANKEL, Research Assistant Professor

Consumer debt has mounted steadily in the postwar years. In 1947, exclusive of mortgage debt, it stood at a modest $11.5 billion. By the end of 1953 it had risen to $29.5 billion, and by the end of 1955 another $6 billion will be added to this sum.

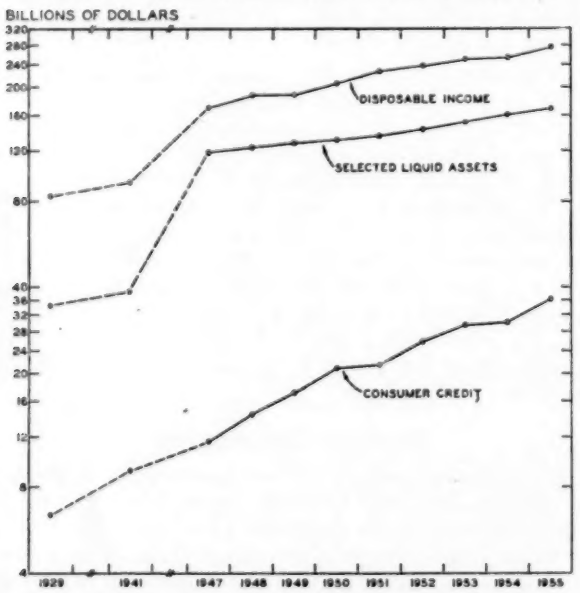
This rapid rise, coupled with the record total of consumer debt outstanding, has occasioned a twofold apprehension. The first concerns household solvency. Are families overextending themselves? The second is whether the present pace of consumer borrowing can be sustained. Will new credit expansions continue to buttress consumer purchasing power in the future as in the past, or will the rate of borrowing slacken with possibly unhappy consequences for income and employment?

The problems of household solvency and the maintenance of purchasing power are related. If households become overextended then they must eventually reduce their rate of borrowing and of expenditures; and if in consequence incomes drop the household position will change for the worse.

Credit and Household Solvency

Not only has household indebtedness risen steadily in absolute terms, but it has risen more rapidly than has disposable income. Chart 1 shows the general picture, comparing postwar changes with prewar peak levels. Consumer debt stood at 7.7 percent of disposable income in 1929, remained close to this figure through the depression, and then rose fairly steadily, reaching 11 percent by 1940. During the war, with incomes and savings high and consumers' goods short, the percentage dropped but afterwards again moved upward. By 1953 the prewar peak had been exceeded, with credit outstanding amounting to 11.8 percent of disposable income. By the end of this year it will have risen still higher, to 13 percent, a figure about double that for 1947.

CHART 1. DISPOSABLE INCOME, SELECTED LIQUID ASSETS, AND CONSUMER CREDIT



* Year-end figures for 1955 are estimated by the author. Sources: U. S. Department of Commerce, Federal Reserve Board, and U. S. Savings and Loan League.

The trend in debt relative to that of selected liquid assets of consumers — savings deposits of various types plus government bonds — exhibits a roughly similar pattern. However, despite a continued rise since the war, the 1941 peak of 23.8 percent in the debt-liquid asset ratio has not yet been reached.

Coordinate with the increase in debt, annual repayments to lenders have grown steadily. For installment credit alone they now are running at a rate in excess of $30 billion. Repayments tell only part of the story, however; they have to be matched against new borrowing, which has exceeded repayments in every year since the war. The difference between new borrowing and repayments represents net borrowing, which is also the annual change in the amount of debt outstanding.

The rising ratio of debt to income does not lead automatically to the conclusion that the present debt level is too high. The signs are mixed, with at least a few of them suggesting that the danger point has not yet been reached. The structure of debt by income group, for example, does not give cause for pessimism. Debt seems not to be concentrated among those with low incomes. Rather the bulk of it is owed by families with incomes in excess of $4,000. Assuming that employment is maintained, these are families who should be able to meet their obligations without undue difficulty. Moreover, the great majority of all families in debt are successfully meeting their repayments as they fall due, since delinquency rates are running at customarily low levels.

Certain other signs also are more favorable than unfavorable. In all postwar years except 1950 the amounts added by families and individuals to their liquid assets have exceeded the amounts by which they have increased their indebtedness. Chart 2 shows the movements of the two variables for selected years.

Over the entire 1947-55 period, liquid assets have grown by almost $50 billion compared with a rise in debt about half as great. However, they have not grown relative to the latter, permitting a rise in the debt-asset ratio, and it might be argued that this ratio is a more significant measure of the consumers' financial picture. Moreover, the families who are adding to their liquid assets are not necessarily the same as those who are adding to their debt. While for many families both magnitudes may increase simultaneously, for others they may move inversely. Nevertheless it is worth observing that families in the aggregate are accumulating from their incomes in readily accessible forms sums more than sufficient to cover their borrowings.

Much the same thing may be said of savings in relation to net borrowing. Here, unfortunately, data ideal to our purpose are not available, since the savings figures include, besides personal savings, the savings of unincorporated enterprises. Neglecting this circumstance we find that in all postwar years saving has exceeded borrowing. The margin favoring saving is even greater than it seems, for saving is defined as the difference between disposable income and consumption expenditures, and consumption expenditures are financed in part by borrowing. Thus the gap between disposable income and consumption financed by income is substantially larger than the savings figures show.

To summarize, the household picture is not a conclusive one. The ratio of debt to income and liquid assets has been rising, but at the same time annual savings and the additions to liquid assets have exceeded increases in consumer debt, and delinquency rates continue to be low. A further sustained rise in the debt-income ratio would place family budgets under strain. Any appreciable tightening of credit that led to higher interest rates or shorter terms of repayment would do the same thing. But at prevailing high levels of income, household solvency does not appear to be threatened.

The proviso regarding incomes is strategic. Should employment and incomes fall, the household position would at once deteriorate. Arguments that would emphasize the present apparent strength of household finances must in the last analysis come to grips with this fact.

Credit and Consumer Demand

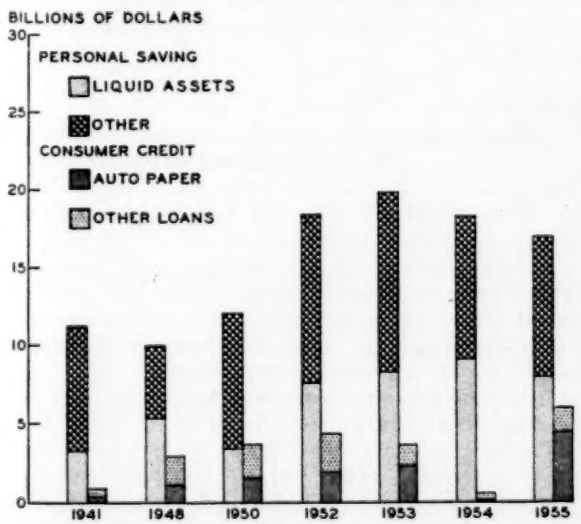
Consumer credit is a source supplemental to income out of which goods and services are purchased. Its ready availability, when joined with the willingness of families to borrow, contributes to total consumer expenditures and helps thereby to sustain aggregate economic activity. If borrowing falls too far, purchases and in turn production, employment, and income may be adversely affected.

The contribution of credit to the finance of consumption outlays is not large. Generally in the postwar years it has comprised under 2 percent of the total. The annual sums involved are low also relative to the year-to-year changes that have taken place in consumption outlays. For these reasons borrowing might be thought unimportant.

But seen in a different light it becomes a more vital element in the finance of expenditure. Close to two-thirds of net borrowing is used to finance purchases of durable goods; this year it will account for over 13 percent of the total. Since the demand for durables is comparatively unstable and since, within limits, the need for durables is postponable, borrowing can be a decisive factor in actual purchases by consumers.

The question arises, will households choose to sustain their current rate of purchase of durables and so have occasion to sustain the current rate of borrowing? One clue to the answer lies in types of uses to which borrowing is put. In 1948, as Chart 2 indicates, slightly under 40 percent of net borrowing was for automobile purchases. The comparable figure for 1950 was 66 percent, and a reasonable estimate for 1955 would be 75 percent. That is, approximately $4.5 billion of the $6-billion increase in debt taking place this year will be used to finance auto purchases.

CHART 2. INCREASES IN PERSONAL SAVING AND CONSUMER CREDIT



Sources: U. S. Department of Commerce, Federal Reserve Board, and U. S. Savings and Loan League.

Obviously then the outlook for consumer credit depends very largely on the outlook for automobile sales. A record has been set in 1955 with roughly 7½ million cars moving into the hands of users. Yet if auto output and sales merely hold to their present high rate, rising repayments will cut into new borrowing, curtailing it drastically by the end of 1956. For auto sales and their finance through credit to contribute to aggregate demand next year at the same rate as in 1955, an appreciable rise in volume would be necessary. That is, the gap between current and recent past sales would have to be maintained.

Another way of looking at it is to observe that with auto sales steady but repayment requirements rising, net borrowing will in time come to a halt. This is so because the rate of repayment on past borrowing lags behind the rate of new borrowing when the latter is rising. This lag varies depending on how rapidly new borrowing rises, on the terms of repayment, and on the stock of outstanding indebtedness. The present lag may be estimated at between 13 and 16 months. When the rise in borrowing is halted, repayments catch up and households must adjust. If they maintain their auto purchases, they will have to cut purchases of other goods and services or draw more heavily on savings.

But are auto sales likely to continue at even their present rate? In this writer's judgment, the chances are against it. Both the present rate of auto output and of borrowing to finance it are, historically, at uniquely high levels. More to the point, automobiles are not purchased for their own sake, but for the services they yield, and at any particular time the stock of automobiles must stand in some reasonable relation to the services demanded of it. There is reason to believe that, by this criterion, the current rate of growth in the stock of cars is too high. A fall in the annual rate of sales to 6 million, still a good year for the industry by past standards, would quickly suffice to erase net borrowing.

In brief, the contribution of borrowing to total purchases could quickly be eliminated. The $6 billion contribution for 1955 is significant in itself, even in our present high-level economy, and would become more so if liquidation set in. Any setback would not be limited to the auto industry. Repercussions would be felt by all those supplying it either with goods or services, including labor services. So far as consumers, faced with a rising repayment burden, sought to tighten their budgets generally, it would be felt also by industries not directly related to autos. The effects could be cumulative and would be intensified by investment cutbacks, for investment is geared ultimately to anticipated consumer expenditure.

We are thus brought back again to the problem of household solvency. Whereas the household situation now is fairly strong, a fall in income would weaken it rapidly. A large debt, with increasingly burdensome repayment requirements, is likely to generate resistance by consumers to further borrowing. Equally relevant, by tying up a part of their income in contractual obligations and by weakening their credit ratings, it limits their ability to borrow. These considerations are cause for concern over the size of the present debt and its rate of increase.

LOCAL ILLINOIS DEVELOPMENTS

Seasonal factors dominated business trends in Illinois during October. Sharp rises were recorded in department store sales, coal production, and life insurance sales. Construction, on the other hand, declined by almost one-fourth.

Comparisons with October, 1954, show that business was considerably more active than last year. Department store sales, bank debits, and electric power production were 10 percent ahead of 1954; gains of about 20 percent were recorded by business loans, petroleum production, and life insurance sales; and steel production was up 42 percent. Construction contracts awarded during the month, however, were below the year-ago figure for the first time in eight months. Farm prices also continued lower as stocks of commodities and livestock grew.

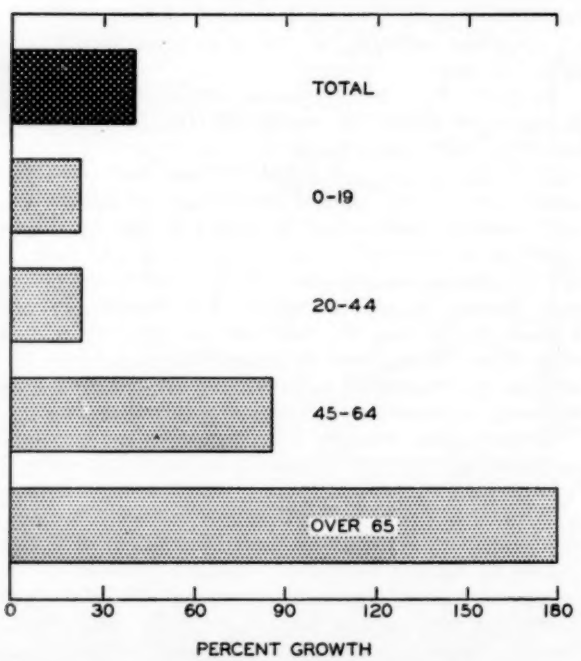
Population Reports

The population of Illinois rose to 9.1 million persons as of July 1, 1954, an increase of more than 60,000 over 1953. The whole of the rise came in the larger metropolitan areas, continuing the long-term trend toward urbanization. The Chicago area accounted for 80 percent.

The expansion of population, which has brought a 50-percent increase in the number of persons in the State in the last three decades, results only in part from a rising number of births. In no small degree it is also caused by the medical advances which have greatly increased a person's chances to live into old age.

This second factor shows up also in the changing age distribution of the population. As shown in the accompanying chart, the total population has grown just over 40 percent since 1920, but those under 45 have increased only a bit more than 20 percent, the number of persons 45 to 65 has almost doubled, and those 65 or over have almost trebled. Economically significant is the much slower rate of growth of the most productive group in the population, those between 20 and 65, than of older persons. Projections of these trends indicate that an increasingly heavy burden of support is likely to fall on this 20 to 65 age group.

ILLINOIS POPULATION GROWTH BY AGE, 1920-54



Source: Illinois Department of Public Health.

Bank Debits to Set New Record

Debits to demand deposit accounts are well on their way to setting a new record at banks in both the State and the nation. With the Christmas peak still to come, debits at Illinois banks during the first 10 months already total 90 percent of the 1954 sum, and the first 11 months will almost equal last year. A 1955 total about 10 percent above the previous record is not at all unlikely for the State.

While all but one of the reporting cities shown on the opposite page have shared in the rise so far this year, they have not shared equally. The gains range up to 16.4 percent (Decatur), with all but Bloomington advancing more than 8 percent. Only East St. Louis suffered a decline; since this includes the National Stock Yards banks, it is probably traceable to the drop in meat prices. Last year, despite the fall pickup in business, four cities totaled below 1953 and the largest gain was only 7.7 percent.

Banner Year for Corn

Illinois tops the nation with its corn crop this year, moving ahead of its neighbor Iowa. With a 520-million-bushel total harvest estimated, the State's farmers are turning in the third highest crop on record, exceeded only in 1948 and 1952.

A yield of 56 bushels per acre is estimated, four bushels more than the average for the past decade. This is 24 bushels larger than the average for 1870-80, the first decade in which records were kept. Although weather and disease make the crop yield highly variable from year to year, the long-term trend, as shown by comparing the 10-year averages, is markedly upward. Three major factors are behind this rise — improved varieties of corn hybrids, use of fertilizers and crop rotation to build the soil, and use of machinery which enables the farmer to take advantage of brief periods of good weather for planting and cultivation. Disease control also helps to boost yields.

Living Costs

Although comparatively stable relative to its rise during the war years, the consumer price index continued to inch upward. In October the index stood at a record 119 for Chicago (1947-49 = 100). This is 2.1 points above the April low for the year and 1.6 points over October, 1954.

A large portion of this rise was attributable to increased costs of housing and household operation. Solid fuels and fuel oil, for example, were 7 points higher than a year ago. Prices of apparel, principally footwear, increased slightly. Transportation, medical care, personal care, and reading and recreation have also risen during the year, but they are not so important to the total.

Declines in many food prices have helped to keep living costs down. The group as a whole has declined 1.5 points since October, 1954, largely because of the drop in meat prices. Fruits, vegetables, and many grocery items have also drifted downward, but dairy products and cereal and bakery products are up slightly.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

October, 1955

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		$28,696[a]	1,013,001[a]			$13,776[a]	$14,882[a]
Percentage change from	Sept., 1955	−38.1	−4.0		+13	−0.4	−1.1
	Oct., 1954	−11.6	+9.3		+10	+12.2	+3.2
NORTHERN ILLINOIS							
Chicago		$18,785	765,690			$12,489	$13,039
Percentage change from	Sept., 1955	−32.4	−4.6		+13	−0.8	−1.6
	Oct., 1954	−27.9	+8.3		+10	+12.0	+2.7
Aurora		$ 643	n.a.			$ 58	$ 118
Percentage change from	Sept., 1955	+37.1			+11	+3.9	+3.4
	Oct., 1954	+58.0			+11	+21.8	+11.9
Elgin		$ 306	n.a.			$ 37	$ 100
Percentage change from	Sept., 1955	−54.1			+13	+2.5	−14.0
	Oct., 1954	−39.6			+16	+17.1	+1.3
Joliet		$ 376	n.a.			$ 72	$ 112
Percentage change from	Sept., 1955	−42.2			+8	+2.5	+33.6
	Oct., 1954	−39.5			+14	+14.3	+29.1
Kankakee		$ 226	n.a.			n.a.	$ 43
Percentage change from	Sept., 1955	−1.7			n.a.		+3.6
	Oct., 1954	+89.9					+11.7
Rock Island-Moline		$1,562	21,676			$ 92[b]	$ 156
Percentage change from	Sept., 1955	+38.0	+4.2		n.a.	+9.5	+20.8
	Oct., 1954	+77.9	+16.7			+13.7	+5.1
Rockford		$1,999	35,673			$ 159	$ 192
Percentage change from	Sept., 1955	+93.7	−1.3		+16[c]	−0.4	+4.6
	Oct., 1954	+136.8	+12.0		+13[c]	+17.9	+3.4
CENTRAL ILLINOIS							
Bloomington		$1,097	7,442			$ 60	$ 100
Percentage change from	Sept., 1955	−3.3	+1.4		n.a.	−2.8	−2.4
	Oct., 1954	+140.0	+13.3			+4.6	+12.8
Champaign-Urbana		$ 435	9,764			$ 70	$ 111
Percentage change from	Sept., 1955	−44.4	+1.5		n.a.	+12.4	+17.0
	Oct., 1954	+339.4	+6.2			+17.4	+10.1
Danville		$ 182	9,881			$ 53	$ 64
Percentage change from	Sept., 1955	−3.2	−8.1		+21	+1.6	+7.3
	Oct., 1954	+21.3	+1.7		+17	+13.0	+15.7
Decatur		$ 762	30,859			$ 132	$ 99
Percentage change from	Sept., 1955	−83.1	+0.4		+14[c]	+15.1	−25.6
	Oct., 1954	+11.1	+19.5		+9[c]	+20.2	−7.6
Galesburg		$ 288	7,684			n.a.	$ 35
Percentage change from	Sept., 1955	−33.2	−4.9		n.a.		−3.6
	Oct., 1954	+119.8	+13.8				+3.8
Peoria		$ 488	50,597[c]			$ 227	$ 255
Percentage change from	Sept., 1955	−81.2	−5.0		+11[c]	+5.7	−7.7
	Oct., 1954	+23.9	+13.2		+8[c]	+20.0	+14.5
Quincy		$ 276	9,381			$ 42	$ 68
Percentage change from	Sept., 1955	−92.0	−8.3		+9	+12.0	+12.8
	Oct., 1954	+56.8	+17.1		−2	+11.5	−1.6
Springfield		$ 354	30,964[c]			$ 112	$ 231
Percentage change from	Sept., 1955	−41.9	−1.0		n.a.	−2.0	+0.2
	Oct., 1954	−2.2	+9.1			+12.0	+2.8
SOUTHERN ILLINOIS							
East St. Louis		$ 634	13,932			$ 133	$ 83
Percentage change from	Sept., 1955	+74.2	+2.1		n.a.	−3.3	+37.3
	Oct., 1954	+248.4	+15.1			−0.3	+14.5
Alton		$ 159	13,276			$ 37	$ 30
Percentage change from	Sept., 1955	+19.5	−1.5		n.a.	−7.8	+6.6
	Oct., 1954	−1.9	+8.6			+11.8	−6.8
Belleville		$ 124	6,181			n.a.	$ 46
Percentage change from	Sept., 1955	−30.3	−17.6		n.a.		+12.9
	Oct., 1954	−50.0	+1.7				−1.4

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Data for September are not available. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports.

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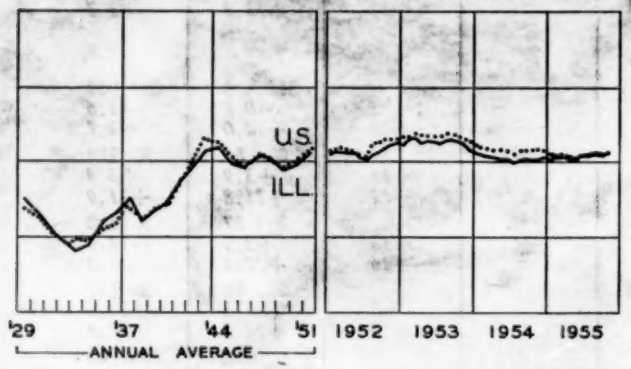
INDEXES OF BUSINESS ACTIVITY

1947-1949 = 100

EMPLOYMENT - MANUFACTURING



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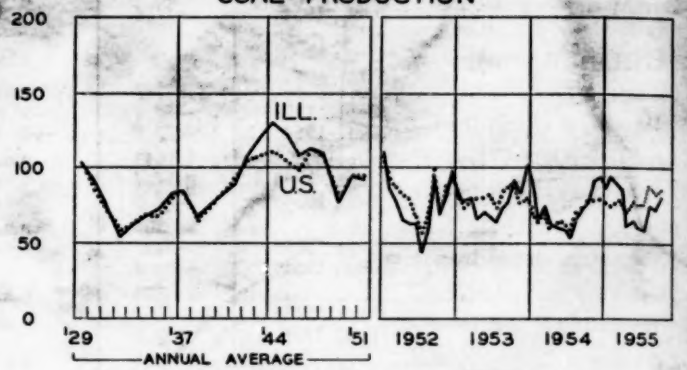
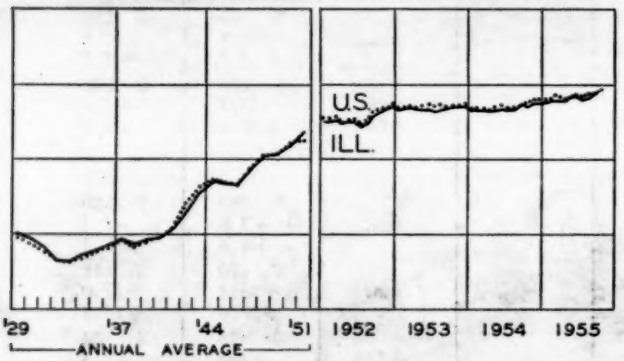
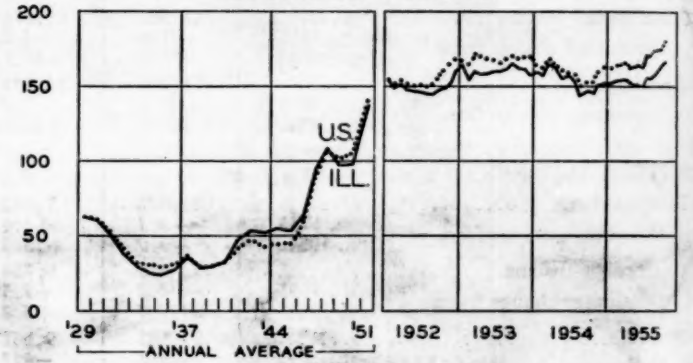


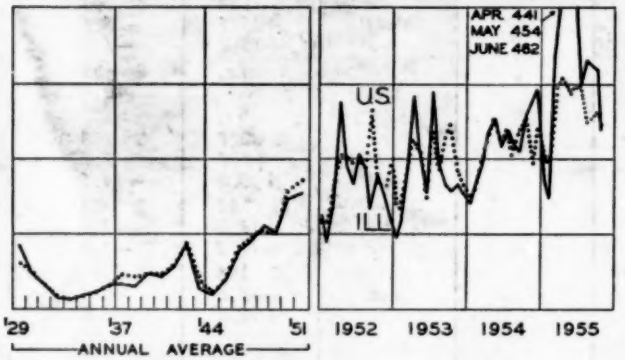
AVG. WKLY. EARNINGS — MANUFACTURING



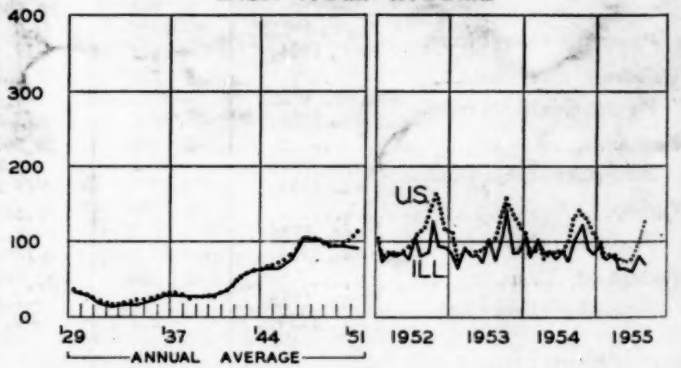
BUSINESS LOANS



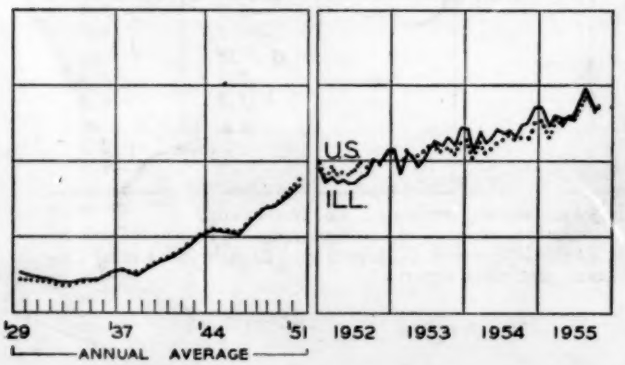
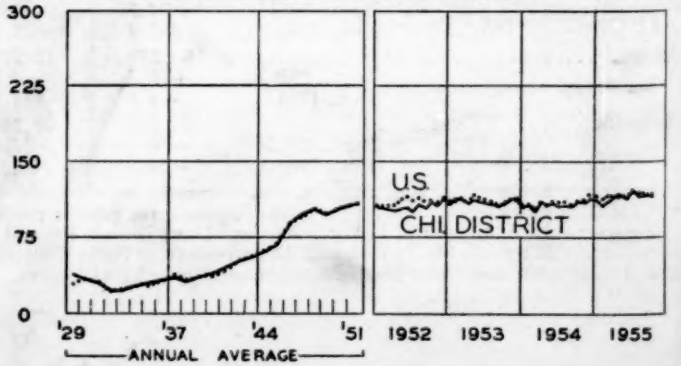
CONSTRUCTION CONTRACTS AWARDED



CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES